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**CORPORATE GOVERNANCE**

DyDo Group Holdings, Inc.

**Last update: June 27, 2019**

# DyDo Group Holdings, Inc.

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**This document describes the Company's approach to corporate governance.**

## I. Basic approach to corporate governance, capital structure, corporate attributes, and other general information

### 1. Basic Approach

Taking into consideration the provisions and spirit of the Corporate Governance Code issued by the Tokyo Stock Exchange, we have formulated a Basic Approach to Corporate Governance that our basic approach and policies in the area of corporate governance in order to facilitate sustained growth and improve our corporate value over the medium and long term.

[Basic Policy]

1. Basic Approach to Corporate Governance

"Creating happiness and prosperity, together with people and with society. To achieve this goal, the DyDo Group will continue to embrace new challenges in a dynamic way."
Our corporate philosophy inspires us in our ongoing quest to ensure proper, upstanding business practices and rigid compliance with relevant laws and regulations. It motivates us to constantly improve management efficiency and transparency, and to promote the group's mutual benefits with all of our stakeholders, including our customers, our employees, our business partners, our communities, and our shareholders. It is the very cornerstone of our corporate governance, which is geared toward generating sustainable growth and improving corporate value over the medium- to long-term.

[DyDo Group Philosophy]
Creating happiness and prosperity, together with people and with society. To achieve this goal, the DyDo Group will continue to embrace new challenges in a dynamic way.

[DyDo Group Vision]
Together with our customers.
With our high-quality products, we will offer our customers excitement and enhanced wellness, with distinctive delicious flavors that only DyDo can.
Together with society.
Bringing together all DyDo's resources in the entire Group's product development and corporate activities, we will help build a rich and vibrant society.
Together with the next generation.
We will create a "DyDo Standard" for the next generation that transcends national borders and conventional frameworks.
Together with our people.
We will tirelessly embrace the "DyDo Challenge" of bringing happiness to all whose lives are touched by the DyDo Group.

The core business of the DyDo Group is Domestic Beverage Business, and considering the fact that 80% or more of our sales for this segment come from vending machines in the local community, it is fair to say that our soft drink products are a familiar part of consumers' everyday lives. Moreover, our operations are conducted under a "fabless management" system, which means we have no plants of our own and instead work in close cooperation with producers and distributors nationwide, to whom we outsource the manufacture and delivery of our products. We concentrate our resources on more specific roles, such as product planning and development, and vending machine operations. We have one of the industry's most extensive networks of vending machines, which are maintained by DyDo Group employees and the "Kyoeikai" (special vending machine operators that handle DyDo products).

It is a rather unique business model that depends on the trust of our stakeholders. As such, we believe "happiness and prosperity together with people and society as a whole" is more than just a nice phrase for a corporate philosophy—it is our duty, and the overriding objective of our business activities. To that end, our "dynamic efforts" are founded on bedrock of corporate governance, a steadfast platform of transparent, fair, swift, and bold decision-making. Moreover, we continually work to improve that foundation in order to contribute to the benefit of our shareholders.

## 2. How We Put the Japan's Corporate Governance Code

### (1) Securing the rights and Equal Treatment of Shareholders

At the DyDo Group, our corporate philosophy guides us to work in close partnership with a broad range of stakeholders. For instance, we endeavor to effectively secure the rights of our shareholders, and to prepare an environment in which they can exercise those rights appropriately.

### (2) Appropriate Cooperation with Stakeholders Other Than Shareholders

We are keenly aware that our efforts to generate sustainable growth and improve corporate value over the medium- to long-term (as enshrined in our corporate philosophy) are reliant on the valuable resources and contributions of a broad spectrum of stakeholders, including our customers, our employees, our business partners, and our communities. Moreover, we are proud to work in close partnership with our stakeholders, and we proactively incorporate their feedback into the running of the DyDo Group. The executives and board of directors are charged with leading the creation and maintenance of a corporate culture that demands respect for the rights and positions of stakeholders and firm adherence to corporate ethics.

### (3) Ensuring Appropriate Information Disclosure and Transparency

In line with our policy of transparency, fairness, and long-term focus, we provide shareholders, investors, and all other stakeholders the information they need to make informed decisions. This includes information on our companies' finances, business performance, management strategies and issues, risks, and other matters relating to governance. Indeed, we consider our legal obligation to disclose pertinent information promptly and appropriately to be a serious matter. In addition, however, we are also eager to publish information that encourages correct understanding of the DyDo Group to the furthest possible extent.

### (4) Responsibilities of the Board

The board of directors seeks to discharge its responsibility and accountability to shareholders by pursuing a three-pronged strategy for consistent improvement of the group's earning power and capital efficiency so as to achieve sustainable growth and improve corporate value over the medium- to long-term. Those three facets are: 1) set the direction for implementation of the group's corporate strategy; 2) establish a platform for executives to take calculated risks; and 3) institute effective, independent, and objective oversight of executives and directors.

### (5) Dialogue with Shareholders

Constructive dialogue with shareholders is an integral part of our IR strategy, which is geared toward our goal of sustainable growth and improved corporate value over the medium- to long-term. Such communication not only fosters correct understanding of the DyDo Group, but it also generates valuable feedback that serves as a frank appraisal of our true trustworthiness and corporate value.

## [Reasons for not implementing certain principles of Japan's Corporate Governance Code]

Updates have been made to the following.

[Updated Content]
Principle 1.4: Cross-Shareholdings
Supplementary Principle 4.2.1: Use of objective and transparent procedures for remuneration system design and determination of actual remuneration amounts
Supplementary Principle 4.3.2: Appointment of the CEO through objective, timely, and transparent procedures
Supplementary Principle 4.10.1: Involvement and advice from independent directors in the examination of such important matters as nominations and remuneration by establishing an independent advisory committee
Principle 4.11: Creation of Board Balanced in Knowledge, Diverse in Gender and International Experience and of an Appropriate Size
Principle 5.2: Identification of Company's Cost of Capital, Articulation of Earnings Plans and Capital Policies, Presentation of Targets for Profitability and Capital Efficiency, Review of Business Portfolio and Clear Explanation to Shareholders about Fixed Asset Investment Policies and Plans and Other Matters

**Supplementary Principle 1.2.5**
**Treatment of institutional investors who own shares in the name of a trust bank (*shintaku ginko*) and/or custodial institutions and express a wish in advance to exercise their voting rights at the General Meeting of Shareholders**

Because voting rights at the General Meeting of Shareholders are held by entities that are included in or registered on the list of shareholders as of the date of record, we do not allow institutional investors who own shares in the name of a trust bank or other institution to attend, exercise their voting rights at, or pose questions at the General Meeting of Shareholders.

Due to the large number of administrative issues associated with implementation of this principle, we have decided to study it in the future after clarifying future trends.

**Principle 1.4** Updated
**Cross-Shareholdings**

We annually assess whether or not to hold each individual cross-shareholding.

The results of the most recent assessment, which was conducted at the December 5, 2018 meeting of the Board of Directors, showed either stable and ongoing cash flows or expected improvement of corporate value with balanced risk in the medium and long term for all business partners; as a result, a policy of continued holding was confirmed.

With regard to "methods for specifically assessing whether or not the purpose of, and the benefits and risks from, holding each individual cross-shareholding is appropriate and covers the company's cost of capital," as required by this principle, the Board of Directors recognizes this as an issue requiring further discussion.

**Principle 1-4-1**
**Response to Cross-Shareholder Indication of Intent to Sell**

When cross-shareholders indicate their intention to sell their shares, we do not hinder the sale of the cross-held shares by, for instance, implying a possible reduction of business transactions.

However, in cases where parties which are cross-shareholders for the purpose of business cooperation indicate their intention to sell their shares, we recognize the need to consider revising cooperative relations based on economic rationality.

**Principle 2-6**
**Roles of Corporate Pension Funds as Asset Owners**

Because the management of corporate pension funds impacts stable asset formation for employees and our own financial standing, we ensure that potential conflicts of interest between pension fund beneficiaries and our company are appropriately managed by entrusting fund operation to a management institution and by receiving regular reports on the status of fund management and stewardship activities.

However, with regard to the involvement of human resources and operational practices, as required by this principle and including recruiting or assigning outside qualified persons, discussion of this issue will be revisited in the future as warranted based on careful monitoring of developments.

**Supplementary Principle 4.1.3**
**Proactive engagement in the establishment and implementation of a succession plan for the CEO and other top executives, and appropriate oversight of the systematic development of succession candidates**

Since assuming the position in April 2014, Tomiya Takamatsu, the Company's president, has demonstrated strong leadership by managing the company with rapid, decisive decision-making in line with its medium- and long-term management posture based on the perspective of all stakeholders and in keeping with the newly formulated Group Philosophy and Group Vision.

Although we do not currently have a specific succession plan for positions such as president, we recognize that the cultivation of corporate officers and management positions that support the Company's executive team is an important priority, and we launched DyDo Innovation Academy, a long-term training program for mid-level employees, in order to cultivate and identify the next generation of leaders who will be responsible for driving the organization's sustained growth going forward. We are working to foster problem-solving skills, strengthen leadership, and facilitate management literacy through a combination of off- and on-the-job training.

For the future, the Board of Directors will appropriately supervise the implementation of initiatives aimed at medium and long term improvement in corporate value, including a strategic development plan for the next generation of corporate officers and managers.

**Supplementary Principle 4.2.1** Updated
**Use of objective and transparent procedures for remuneration system design and determination of actual remuneration amounts**

While we have not established an independent external director-led advisory committee, the members of the Board of Directors do incorporate the advice of independent external directors as appropriate when deliberating about remuneration system design.

Also, while the remuneration of individual directors is not disclosed, objectivity and transparency are maintained through disclosure of an overview of our performance-based incentive system and the methods by which the number of shares to be allocated is calculated for recipients.

**Supplementary Principle 4.3.2** Updated
**Appointment of the CEO through objective, timely, and transparent procedures**

Although we have not established an independent external director-led advisory committee, given that the appointment of the CEO is the most important strategic decision for a company, the Board of Directors makes appropriate use of the involvement and advice of independent, outside directors to ensure the appointment of a qualified CEO.

**Supplementary Principle 4.3.3**
**Establishment of objective, timely, and transparent procedures for dismissal of the CEO**

We have not established uniform evaluation standards for the dismissal of the CEO, nor conditions for dismissal.

In the unlikely event that a situation arises which is deemed objectively worthy of dismissal, such as legal or corporate by-law violations by the CEO which significantly harm the value of the company, a decision will be made after thorough discussion by the Board of Directors with independent, outside directors in attendance.

**Supplementary Principle 4.8.2**
**Election of a head independent external director**

Two of the six positions on our Board of Directors are occupied by independent external directors, but we do not elect a head independent external director.

In addition to the support offered to external directors by the Board of Directors Secretariat to facilitate

clear communication and coordination with the rest of the Company's executive team, we foster collaboration with auditors and the *Kansayaku* Board by means of such measures as regular meetings that are attended exclusively by independent external officers.

**Supplementary Principle 4.10.1** Updated

**Involvement and advice from independent directors in the examination of such important matters as nominations and remuneration by establishing an independent advisory committee**

Two of the six positions on our Board of Directors are occupied by independent external directors in order to increase the accountability of the executive team and increase transparency, and important matters such as executive and director appointment, stepping down, and compensation require the approval of the Board of Directors, on which these independent external directors sit. While we have not established an independent external director-led advisory committee, the members of the Board of Directors do incorporate the advice of independent external directors as appropriate when deliberating about important matters.

**Principle 4.11** Updated

**Creation of Board Balanced in Knowledge, Diverse in Gender and International Experience and of an Appropriate Size**

Our Articles of Incorporation require seven or fewer directors and four or fewer auditors. Currently, our Board of Directors consists of six seats. We believe this size maintains the potential for meaningful deliberation while bringing together members with different backgrounds in terms of characteristics such as expertise and experience, for example directors who possess extensive knowledge of the Company's businesses as well as external directors who can help enhance the Company's corporate governance by offering highly effective oversight of the executive team and advice concerning appropriate decision-making by the Board from an independent perspective. While there are currently no female or non-Japanese directors, the current group of directors possesses the necessary skill-set and diversity to address the challenges involved in implementing the basic policies of the Group Mission 2030, i.e., innovation in the Domestic Beverage Business, expansion in overseas business development and development of a second major source of revenue through non-drink businesses, and we believe that the current structure of the Board, one-third of whose members are independent outside directors, allows us to ensure an additional level of independence and objectivity.

With regard to the composition of the Board of Directors in the medium- to long-term, our priority moving forward is considering the recruitment of persons who will bring added diversity that strengthens the functioning and effectiveness of the Board of Director in line with our business strategy development and the changing needs of society.

**Principle 5.2** Updated

**Identification of Company's Cost of Capital, Articulation of Earnings Plans and Capital Policies, Presentation of Targets for Profitability and Capital Efficiency, Review of Business Portfolio and Clear Explanation to Shareholders about Fixed Asset Investment Policies and Plans and Other Matters**

The Group formulated the Group Mission 2030 by incorporating issues addressed by the current "Challenge the Next Stage" mid-term business plan and analyzing these and other medium- and long-term changes in the business environment as either risks or business opportunities that will exert a serious impact on its business model.

The mission, which has been formulated to facilitate the implementation of the Group Philosophy and Group Vision as the Company moves toward and beyond 2030, identifies the Group's mission and direction in each of four areas, providing a roadmap for the achievement of each.

Specifically, it divides the run-up to 2030 into three phases—a platform-strengthening and investment stage, a growth stage, and an achievement stage. By developing highly competitive business models through the implementation of business strategies in each stage, the Group will build a robust business portfolio characterized by high growth, profitability, and efficiency.

Based on a recognition that two significant challenges for improving the Group's capital productivity are improving profit margins and increasing total asset turnover, we have established clear standards within the basic policies of the Group Mission 2030 for business segment operating profit margin targets and, as part of the Mid-term Business Plan 2021 governing the first phase of the Mission, we are cultivating

sustained growth and medium- to long-term corporate value enhancement via a strategy focused on improving profitability and active investment in future growth.

The Mid-term Business Plan 2021 represents a platform-strengthening and investment stage intended to lay the foundation for realizing the vision set forth in the Group Mission 2030. Through a combination of cash flow maximization and active growth strategy advancement without fixed, quantitative targets for the three-year period it covers, the Mid-term Business Plan 2021 offers principal performance indicator guidelines and provides policies for setting single fiscal year targets in response to changes in the business environment and priority strategy and investment strategy progress.

## [Disclosures in accordance with the principles of Japan's Corporate Governance Code]

Updates have been made to the following.

[Updated Content]
Principle 1.4: Cross-Shareholdings
Principle 3.1: Full Disclosure
Principle 4.8: Effective Use of Independent Directors
Principle 4.9: Independence Standards and Qualification for Independent Directors
Supplementary Principle 4.11.1: Approach to the overall balance of knowledge, experience, and skill as well as the diversity and size of the Board of Directors
Supplementary Principle 4.11.2: Concurrent service by officers of other listed companies on the Company's Board of Directors or *Kansayaku* Board
Supplementary Principle 4.11.3: Analysis and evaluation of the overall effectiveness of the Board of Directors and overview of the results of the same
Principle 5.1: Policy for Constructive Dialogue with Shareholders

[Additions]
Principle 4.10: Use of Optional Approach

### Principle 1.3
### Basic Strategy for Capital Policy

Our basic approach to capital policy is to maintain and continue the stable allocation of capital in the challenging business environment in which the Company operates while working to ensure effective use of capital and financial soundness. We give priority to strategic business investments with the potential to lead to sustained profit growth and improved capital efficiency in the allocation of internal reserves, and we have no specific plans concerning the acquisition of treasure stock at the current time.

In addition, a proposal to allocate retained earnings to fund contributions to the communities in which we operate is proposed and approved at every General Meeting of Shareholders as a way for the Company to contribute to community-oriented programs in keeping with the Group Corporate Philosophy of achieving happiness and prosperity together with people and society as a whole. Going forward, we will continue to give something back to the Company's stakeholders on a consistent basis.

### Principle 1.4 Updated
### Cross-Shareholdings

(Policy and approach on reduction of cross-shareholdings)

We may establish strategic stakes in important stakeholders such as business partners or companies with which we have entered into operational alliances in keeping with a basic approach of achieving sustained growth and increasing corporate value over the medium and long term while pursuing mutually beneficial relationships with stakeholders.

Examples include situations where we stand to gain stable and sustained cash flow by maintaining a good relationship over the medium and long term because a partner can offer a large number of favorable vending machine locations, or where an operational alliance would contribute to efforts to increase corporate value over the medium and long term. We clearly identify the purpose of each new stake and then regularly verify its status following acquisition, and if it is determined that stable and ongoing cash flows and improved corporate value in the medium and long term cannot be expected, reductions are performed via sale of shares or some other, appropriate method.

(Content of assessment of whether or not to hold each individual cross-shareholding)

Assessment of whether or not to hold each individual cross-shareholding is performed annually.

The results of the most recent assessment, which was conducted at the December 5, 2018 meeting of the Board of Directors, showed either stable and ongoing cash flows or expected improvement of corporate value with balanced risk in the medium and long term for all business partners; as a result, a policy of continued holding was confirmed.

As of January 20, 2019, the balance for equity investments obtained for the purpose of holding, excluding net investments, was 16,907 million yen (12,037 million yen on January 20, 2018), with primary cause of increase being current price change in shares of TCI Co., Ltd., which are held for capital and business tie-up purposes.

Also, as of January 20, 2019, the number of listed companies for which equity investments have been obtained for the purpose of holding, excluding net investments, was 32 (31 on January 20, 2018), which is an increase of one company compared with the previous year. This is due to MDD Beverage Sdn. Bhd. being excluded from the scope of equity accounting.

(Standard on exercising voting rights deriving from cross-shareholdings)

Voting rights deriving from cross-shareholdings are exercised on a case-by-case basis following an investigation of whether this decision will damage our corporate value.

**Principle 1.7**
**Related Party Transactions**

To prevent directors, auditors, corporate officers, and other company officials and major shareholders from abusing their positions by engaging in transactions that harm the interests of the Company or its shareholders, competition and conflict of interest transactions with officers and corporations that are substantially controlled by officers must be deliberated and decided by the Board of Directors. In addition, affected officers may not participate in those deliberations and decisions.

Investigations to identify any transactions with directors, corporate auditors, or their close relatives are documented, and any results including material information, are reported to the Board of Directors. Furthermore, the Company discloses transactions between related parties in accordance with the Companies Act, the Financial Instruments and Exchange Act, and rules imposed by the Tokyo Stock Exchange.

**Principle 2-6**
**Content of human resources and operational practices implemented to ensure expected functioning of corporate pension funds as asset owners**

Because the management of corporate pension funds impacts stable asset formation for employees and our own financial standing, we ensure that potential conflicts of interest between pension fund beneficiaries and our company are appropriately managed by entrusting fund operation to a management institution and by receiving regular reports on the status of fund management and stewardship activities.

However, with regard to the involvement of human resources and operational practices, as required by this principle and including recruiting or assigning outside qualified persons, discussion of this issue will be revisited in the future as warranted based on careful monitoring of developments.

**Principle 3.1** Updated
**Full Disclosure**

(1) Company objectives (e.g., business principles), business strategies and business plans

Our Group Philosophy prioritizes “creating happiness and prosperity, together with people and with society,” and “to achieve this goal, the DyDo Group will continue to embrace new challenges in a dynamic way” according to our slogan of “offering delicious products for sound mind and body” in line with the DyDo Group mission of delivering products to customers.

Moreover, in order to help us actualize these aspirations, in January 2019 we made it our Group Mission “For DyDo Group to create enjoyable, healthy lifestyles for people around the world.” Based on our Group Mission, we are working on innovation in the Domestic Beverage Business, expansion in overseas business development and development of a second major source of revenue through non-drink businesses in order to build a robust business portfolio characterized by high growth, profitability, and efficiency.

We have divided the twelve years until the 2030 fiscal year into three phases - a platform-strengthening and investment stage, a growth stage, and an achievement stage - and are using the three years starting from fiscal year 2019 to implement Mid-term Business Plan 2021 as the platform-strengthening and investment stage. This Mid-term Business Plan is made up of three basic policies: focusing on improving profits and implementing robust management, making judgments about business continuity to facilitate strategic management, and implementing a growth strategy to achieve the Group Mission 2030. The environment surrounding the DyDo Group's core business of vending machines is harsh, and traditional business practices will inevitably produce diminishing returns; nevertheless, vending machine business will remain the core business of the DyDo Group. Thus, while allowing for a certain amount of profit reduction during the Mid-term Business Plan 2021 period, we are laying the foundation for the growth and achievement phases by investing in existing business in order to facilitate its rejuvenation while also pursuing new investments aimed at developing a second major source of revenue for the Group.

The socio-economic landscape has been changing dramatically in recent years, particularly in Japan, where the population is becoming significantly older and longer-lived. This is creating new markets with needs to be addressed. Going forward, in addition to treating such changes as opportunities for growth and the creation of new value, we will embrace the challenge of realizing sustained growth and increasing our corporate value over the medium and long term by using our business in line with the values set forth in our Group Philosophy and Group Vision to help address the issues facing society.

(2) Basic Approach and Policy Regarding Corporate Governance

"DyDo Group strives to achieve happiness and prosperity together with people and society as a whole. To realize this, we will continue our dynamic efforts to take on new challenges." Our corporate philosophy inspires us in our ongoing quest to ensure proper, upstanding business practices and rigid compliance with relevant laws and regulations. It motivates us to constantly improve management efficiency and transparency, and to promote the group's mutual benefits with all of our stakeholders, including our customers, our employees, our business partners, our communities, and our shareholders. It is the very cornerstone of our corporate governance, which is geared toward generating sustainable growth and improving corporate value over the medium- to long-term.

The core business of the DyDo Group is Domestic Beverage Business, and considering the fact that over 80% of our sales for this segment come from vending machines in the local community, it is fair to say that our soft drink products are a familiar part of consumers' everyday lives. Moreover, our operations are conducted under a "fabless management" system, which means we have no plants of our own and instead work in close cooperation with producers and distributors nationwide, to whom we outsource the manufacture and delivery of our products. We concentrate our resources on more specific roles, such as product planning and development, and vending machine operations. We have one of the most extensive networks of vending machines in Japan, maintained by DyDo Group employees and the "Kyoeikai" (special vending machine operators that handle DyDo products).

As such, we believe "happiness and prosperity together with people and society as a whole" is more than just a nice phrase for a corporate philosophy—it is our duty, and the overriding objective of our business activities. To that end, our "dynamic efforts" are founded on bedrock of corporate governance, a steadfast platform of transparent, fair, swift, and bold decision-making. Moreover, we continually work to improve that foundation in order to contribute to the benefit of our shareholders.

Our executive team (consisting of the president and representative director as well as the chairman and director), which consists of members of the family that founded the Company, directs the Company's management through prompt and decisive decision-making, a management stance characterized by a medium- and long-term perspective that is based on stakeholders' positions, and conformity with its members' status as major shareholders of the Company. Their stake totaled about 33% of the Company's shares (as of January 20, 2019) and is exercised through such means as asset management companies under their direct control. In keeping with our recognition that ensuring transparency and fairness in the decision-making process is imperative in order to implement effective corporate governance at the Company, we have chosen to structure the Company as a company with a *Kansayaku* Board. In this organizational structure, auditors have investigative authority under applicable laws and regulations to audit directors' performance of their obligations and responsibilities. By filling three of the four seats on the *Kansayaku* Board with outside corporate auditors (three of which are independent outside corporate auditors), we have sought to strengthen the ability of auditors to oversee the Company's management from an independent perspective. Furthermore, we have elected two independent outside directors to the Board of Directors since April 2014 in order to incorporate outside perspectives into our management and enhance the Board's ability to supervise the Company's operations. In this way, we're working to increase the accountability of top executives and to increase transparency.

As of April 16, 2019, two of the six seats on our Board of Directors are occupied by independent outside directors, with the result that independent outside directors account of one-third of the Board of Directors.

(3) Board policies and procedures in determining the remuneration of the senior management and directors;

Director compensation consists of base compensation and bonuses, and the base compensation for individual directors is established based on their responsibilities. Bonuses are determined based on the Company's performance during the fiscal year in question. As part of our transition to a holding company structure effective January 21, 2017, we introduced a performance-based incentive program that awards Company shares in proportion to the extent to which performance targets are achieved in an effort to contribute to the Group's sustained growth and increased corporate value over the medium and long term. The performance-based incentive program does not apply to independent directors or the chairman of the Board of Directors, whose positions place them at a remove from the Company's day-to-day operations.

i) Overview of the performance-based incentive program

Under our performance-based incentive program, the holding company (DyDo Group Holdings) contributes funds to a trust that uses those funds to fund purchases of holding company shares. Those shares are then awarded to directors and other officers at the holding company and select subsidiaries based on factors such as the extent to which performance targets are achieved, in accordance with rules governing awards of shares to directors and corporate officers as established by the holding company and those subsidiaries. In principle, directors and other officers at the holding company and select subsidiaries receive holding company shares when they leave the position that entitled them to the awards.

ii) Method for calculating the number of shares awarded

Directors and other officers at the holding company and select subsidiaries are awarded points for each business year based on their position and the extent to which performance targets were achieved during each business year in the target period. Points are then converted into shares at the rate of one share of holding company common stock per point. (That conversion ratio is subject to adjustment as deemed reasonable following any stock splits, allotments of shares without contribution, or reverse splits affecting holding company shares, according to the ratios involved and other factors.)

On the last day of March following the end of each business year in the target period, a certain number of points, calculated by multiplying the base point award for each individual's position for the business year that ended that January 20 by a performance-based coefficient calculated according to the extent to which performance targets were achieved, are awarded to directors and other officers at the holding company and select subsidiaries. The performance-based coefficient used in the calculation is itself calculated based on the extent to which each business year's initial consolidated-basis operating income forecast and sales forecast as announced in the financial briefing were achieved. If performance targets are not achieved, a performance-based coefficient of 0.0 is used.

(4) Board policies and procedures in the appointment of the senior management and the nomination of directors and *kansayaku* candidates;

Our policies require the election of individuals who possess extensive knowledge of the Company's operations and who excel in character, knowledge, and energy as candidates for managing director positions, and of individuals who possess specialized knowledge and extensive experience along with the ability to contribute to the enhancement of our corporate governance, for example by offering advice as appropriate concerning decision-making by the Board of Directors from an independent perspective or by providing highly effective supervision of the Company's executive team, as candidates for external director positions. Similarly, our policies require the election of individuals who possess extensive expertise and experience as specialists in areas such as finance, accounting, or law and who can carry out audits from a highly independent and broad perspective as candidates for external auditor positions.

The key consideration in nominations of individuals to fill top executive positions is the ability to exercise strong leadership and direction over the Company's management through prompt and decisive decision-making, a management stance characterized by a medium- and long-term perspective, and consideration of stakeholders' positions.

(5) Policies and Procedures with respect to the dismissal of corporate executives

In order to increase accountability of corporate executives and, thereby, further promote transparency, two of the six members of the Board of Directors are independent external directors.

In the unlikely event that a situation arises which is deemed objectively worthy of dismissal, such as legal or corporate by-law violations by corporate executive which significantly harm the value of the company, a decision will be made after thorough discussion by the Board of Directors with independent, outside directors in attendance.

(6) Explanation of individual nominations and appointments based on (4)

We include a statement of the reasons for which each candidate was chosen in the notice of convocation of the General Meeting of Shareholders.

An explanation of the reasons used in choosing the directors who were appointed as of April 16, 2019 is given below.

**Tomiya Takamatsu**

Since his appointment to the position of President in April 2014, Mr. Takamatsu has demonstrated strong leadership by managing the Company with rapid, decisive decision-making in line with its medium- and long-term management posture based on the perspective of all stakeholders and in keeping with the newly formulated Group Philosophy and Group Vision. He has been steadily working to build business foundations geared to achieving growth in the future which has involved strengthening the Group's management. Based on this proven track record, he is considered to be qualified for service on the Board of Directors.

**Tomihiro Takamatsu**

Having guided the Company as its President for 20 years, Mr. Takamatsu brings a wealth of experience as well as a proven track record to the table. In his current position as Chairman and Director, he fulfills a range of roles as appropriate, including strengthening the foundation of the Group's management in areas such as governance, deciding important issues, and overseeing execution of business operations. In addition, he has worked tirelessly to revitalize the local communities in which the Company does business by orchestrating its community service activities over many years. Based on this proven track record, he is considered to be qualified for service on the Board of Directors.

**Naoki Tonokatsu**

Since joining the Company, Mr. Tonokatsu has engaged in finance for many years and has extensive experience and achievements. Currently, as the Director, Corporate Officer, and General Manager of Finance Department, he is putting effort into sound company management such as by building a solid structure for the entire Group's financial base and contributing to improving profitability. Based on this proven track record, he is considered to be qualified for service on the Board of Directors.

**Naoyuki Nishiyama**

Mr. Nishiyama has engaged in a wide range of duties covering overall management such as corporate strategy, strategic investment, and international business and has extensive experience and achievements. Currently, he is leading Group companies as the Director, Corporate Officer, and General Manager of Corporate Strategy Department and pursuing initiatives to expand into new business domains. Based on this proven track record, he is considered to be qualified for service on the Board of Directors.

**Shinji Mori (outside director)**

Mr. Mori has extensive experience and an advanced level of specialized knowledge as an attorney, and he has served the Company for 13 years as an Outside Corporate Auditor and for five years as an Outside Director. Based on that experience, he is appropriately carrying out his role in strengthening the oversight function of the Board of Directors by commenting on the Company-wide approach to risk management, and otherwise offering advice and suggestions as to the Company's management from an independent perspective. Based on this proven track record, he is considered to be qualified for service on the Board of Directors.

Although Mr. Mori has not been involved in corporate management in a manner other than that of being an outside director/corporate auditor of the Company and other companies in the past, the Company has judged that he will be able to appropriately carry out his duties as Outside Director for the above reasons.

*We have submitted filings to the Tokyo Stock Exchange designating Mr. Mori as an independent external director.

**Masataka Inoue (outside director)**
Mr. Inoue has a wealth of knowledge and overseas experience in the food industry. Based on his auditing experience in areas such as business development through overseas M&As and overseas subsidiaries, he is appropriately carrying out his role in strengthening the oversight function of the Board of Directors by commenting with respect to his viewpoint on risk and returns in the course of deliberations concerning such management issues of the Company as accelerated development of the Company's business overseas and expanding into new business domains, and otherwise offering advice and suggestions from an independent perspective. Based on this proven track record, he is considered to be qualified for service on the Board of Directors.
*We have submitted filings to the Tokyo Stock Exchange designating Mr. Inoue as an independent external director.

**Supplementary Principle 4.1.1**
**Scope of authority delegated to the executive team by the Board of Directors**

Our Board of Directors is the body with decision-making authority over important matters related to the Company's operations and responsibility for supervising those operations. The specific matters over which it has decision-making authority and the reporting requirements to which it is subject are set forth in our Board of Directors Rules.

The Management Meeting, whose membership consists of full-time directors and corporate officers, serves as an advisory body for the president by proposing policies and plans related to the overall management of the Company and by investigating, researching, planning, managing, communicating, and coordinating the same.

As part of our transition to a holding company structure in January 2017, we transferred authority for certain operations to group companies in order to accelerate decision-making and stimulate robust deliberation about group strategy, business plans, and other topics by the Board of Directors.

We set forth a series of new, specific standards by revising applicable provisions of the Board of Directors Rules, Management Meeting Rules, Management Authority Rules, and other documents.

**Principle 4.8** Updated
**Effective Use of Independent Directors**

We have elected two independent external directors to the Board of Directors since April 2014 in order to incorporate outside perspectives into our management and enhance the Board's ability to supervise the Company's operations. In this way, we're working to increase the accountability of top executives and to increase transparency.

As of April 16, 2019, two of the six seats on our Board of Directors are occupied by independent external directors, with the result that independent external directors account of one-third of the Board of Directors.

Moving forward, we view as a priority the recruitment of persons who will bring added diversity that strengthens the functioning and effectiveness of the Board of Director in line with our business strategy development and the changing needs of society.

**Principle 4.9** Updated

**Independence Standards and Qualification for Independent Directors**

The Company has established the following standards to govern the independence of its Outside Directors/Corporate Auditors.

1. Candidates may not be an individual with responsibility over operations (*1) of the DyDo Group;
2. Candidates may not have the DyDo Group as a major business partner (*2) or be an individual with responsibility over operations of a company that has the DyDo Group as a major business partner;
3. Candidates may not be a major business partner of the DyDo Group, or an individual with responsibility over operations of a major business partner of the DyDo Group;
4. Candidates may not be a consultant, accounting specialist, or legal specialist who receives a large amount of money (*3) or other assets apart from officer compensation from the DyDo Group;
5. Candidates may not be a trustee or an individual with responsibility over operations of an organization that receives donations or subsidies in excess of a certain amount (*4) from the DyDo Group;
6. Candidates may not be a major shareholder of the Company (*5) or an individual with responsibility over operations of a major shareholder of the Company;
7. Candidates may not be an individual with responsibility over operations of a certain other company if an Executive Director or full-time Corporate Auditor of the Company is concurrently serving as an outside director or outside corporate auditor of that company;
8. Candidates must not have fallen under the statuses described in 1 through 7 above at any time during the last three years, and;
9. Candidates must not be a close relative (*6) of an individual who falls under any of the statuses described in 1 through 8 above (however, this applies only to an individual deemed an important employee (*7) with respect to an employee described in 1 above).

*1 In this context, an individual with responsibility over operations refers to an Executive Director or executive officer of the Company, or another company's company officer with responsibility over that company's business operations, or individuals or employees with the same responsibilities.
*2 In this context, a major business partner refers to a business partner whose payments or receipts with respect to transactions with the DyDo Group have exceeded 2% of its total annual consolidated net sales during the most recent fiscal year.
*3 In this context, a large amount of money refers to an amount, when averaged over the last three years, that is ¥10 million or more per year (for individuals), or, over 2% of an organization's consolidated net sales when averaged over the last three fiscal years (for organizations).
*4 In this context, a certain amount refers to an amount, when averaged over the last three fiscal years, that is either ¥10 million per year or 30% of the average annual total expenses of the organization, whichever is larger.
*5 In this context, a major shareholder of the Company refers to a shareholder who directly or indirectly holds 10% or more of voting rights of the Company.
*6 In this context, a close relative refers to a spouse, a relative within the second degree of kinship, or a relative residing in the same household.
*7 In this context, an important employee refers to an employee of the rank of General Manager or above.

**Principle 4.10** Updated

**Use of Optional Approach**

On March 15, 2019, the Board of Directors approved the formation of an Advisory Board consisting of roughly three outside experts not currently serving as outside directors or corporate auditors as a voluntary mechanism to further enhance its corporate governance.

In addition to offering assessments and advice from an objective perspective concerning issues that demand a high level of specialized knowledge, for example investment decisions related to the orphan drug business, the Advisory Board, which will advise the president, is intended to further boost the transparency of the Company's management by incorporating outside perspectives into the execution of strategy, for example by offering advice concerning management issues faced by the Group.

**Supplementary Principle 4.11.1** Updated

**Approach to the overall balance of knowledge, experience, and skill as well as the diversity and size of the Board of Directors**

Our Articles of Incorporation require seven or fewer directors and four or fewer auditors. Currently, our Board of Directors consists of six seats. We believe this size maintains the potential for meaningful deliberation while bringing together members with different backgrounds in terms of characteristics such as expertise and experience, for example directors who possess extensive knowledge of the Company's businesses as well as external directors who can help enhance the Company's corporate governance by offering highly effective oversight of the executive team and advice concerning appropriate decision-making by the Board from an independent perspective. Collectively, the Directors possess the necessary skill-set and diversity to address the challenges involved in implementing the basic policies of the Group Mission 2030, i.e., innovation in the Domestic Beverage Business, expansion in overseas business development and development of a second major source of revenue through non-drink businesses, and we believe that the current structure of the Board, one-third of whose members are independent outside directors, allows us to ensure an additional level of independence and objectivity. Our *Kansayaku* Board consists of four seats, of which three are occupied by outside corporate auditors (and one of which is occupied by a woman). These corporate auditors provide independent oversight of the manner in which directors carry out their obligations and responsibilities.

**Supplementary Principle 4.11.2** Updated
**Concurrent service by officers of other listed companies on the Company's Board of Directors or *Kansayaku* Board**

We disclose information about concurrent service by officers of other listed companies on the Company's Board of Directors or *Kansayaku* Board on an annual basis in notices of convocation of the General Meeting of Shareholders, securities reports, and corporate governance reports.

As of April 16, 2019, one of the Company's two external directors also serves as an external auditor at a listed company. In addition, two of the Company's three outside corporate auditors also serve as outside directors on the audit and supervisory committee of a listed company.

**Supplementary Principle 4.11.3** Updated
**Analysis and evaluation of the overall effectiveness of the Board of Directors and overview of the results of the same**

We have evaluated the effectiveness of the Board of Directors since FY2016, and we adopted the following analysis/evaluation method in FY2018. We released an overview of those evaluation results on March 15, 2019.

1. Analysis/Evaluation Method

In order to analyze and evaluate the effectiveness of the Board of Directors, during the period between December 2018 and March 2019, all directors and auditors carried out a self-evaluation survey, and individual interviews were carried out by the Secretariat of the Board of Directors.

After that, at a meeting of the Board of Directors that was held on March 15, 2019, in addition to analyzing the results of the self-evaluation surveys, and in an attempt to enhance awareness regarding present problems, constructive discussions were held regarding these matters and future efforts to realize a higher level of effectiveness for the Board of Directors.

2. Evaluation Items

The self-evaluation survey form included items addressing the following major topics so that respondents could review the effectiveness with which the Board of Directors deliberated and dealt with issues identified through the evaluation of its effectiveness during the previous year:
(1) Board agenda and operations
(2) Medium- and long-term composition of the Board based on Group Mission 2030
(3) Future issues in light of the Corporate Governance Code

3. Overview of Analysis/Evaluation Results

On the basis of the outcome of discussions regarding the analysis of the results of the self-evaluation surveys, the Board of Directors of the Company came to the conclusion that "the Board of Directors is functioning effectively."

[Status of improvements related to deliberations by the Board]

•The Board has embraced an agenda that goes beyond mere reporting of results by encompassing a consideration of operations. Time dedicated to discussions of companywide business strategy, companywide resource allocation, and management of key measures (PDCA) increased compared to the previous year.
•In formulating Group Mission 2030, the Board worked to address constraints on the amount of time available for regular Board meetings by taking steps to ensure an adequate amount of time for discussions, including by holding extraordinary Board meetings and meetings designed to facilitate exchanges of views.
•Outside directors were provided with information about important discussions in advance, including risk analysis results and the information about the viability of business plans (purchase prices) for proposed investments.

Directors shared an awareness of the following issues that will need to be addressed in the future in order to further boost the effectiveness of the Board of Directors and strengthen its ability to function:
(1) Concerning the composition of the Board over the medium and long term, it will be necessary to consider appointing an even more diverse group of directors in response to the development of the Company's business strategy and changes in society.
(2) Concerning materials provided to the Board, there remains room to improve the resources offered to directors, for example by augmenting simplified briefing materials with supplemental explanation of key considerations with regard to matters up for discussion by the Management Committee.
(3) Concerning deliberation of new investments and discussions concerning the nature and future direction of the Company's business portfolio, it will be necessary to engage in even deeper study of related issues, for example with regard to the criteria that would govern a decision to withdraw from the investment.
(4) Concerning management of risk in the International Beverage Business, it will be necessary to enhance the Company's management and auditing structures as a holding company, for example by assessing local issues and problems in a timely manner and studying how to identify and deal with priority issues based on the likelihood and impact of associated events.
(5) The Board will supervise implementation of a strategic plan to train a new generation of executives in an appropriate manner based on its recognition of the fact that hiring, retaining, and training the human resources that will be responsible for the next generation is a key management issue as the Company works to increase its corporate value over the medium and long term.

[Reference] Issues identified last year

Future issues to address in order to boost the effectiveness of the Board of Directors
(as announced March 15, 2018)

(1)With regard to the makeup of the Board, we will find members with expertise in the healthcare domain in accordance with the Company's management strategy.
(2)With regard to the provision of information to external directors and auditors, we will work to provide more information sooner.
(3)With regard to deliberations involving investments, we will push for enhanced explanation of associated risks and returns and clarification of the criteria that would prompt the Company to pull the investment in question.
(4)With regard to risk management in the International Beverage Business, we will undertake additional initiatives, for example to raise awareness of local employees.

**Supplementary Principle 4.14.2**
**Policies on the training of directors and auditors**

We provide opportunities for directors and auditors, including external directors and external auditors, to gain necessary knowledge about the Company's businesses, financials, organization, and other characteristics and to develop an understanding of the roles and responsibilities of directors and auditors when they assume their positions. We also offer top executives, defined as individuals serving in positions at the corporate officer level and above, opportunities to gain knowledge about corporate legal affairs, accounting, corporate governance, capital markets, and other topics and to keep their knowledge up to date.

**Principle 5.1** Updated
**Policy for Constructive Dialogue with Shareholders**

(1) DyDo Group Holdings strives to achieve sustained growth and increased corporate value over the medium and long term by promoting constructive dialog with stakeholders. By giving overall responsibility for dialog with stakeholders to the president and having the general manager of the Corporate Communications Department (Information Management Officer) pursue dialog with specific purposes, the Company strives to build trust with structures that bring stakeholder voices to bear on its management.

(2) The Corporate Communication Department works closely with other involved departments to facilitate smooth dialog with shareholders and investors by holding meetings as necessary. In addition, the head of the department attends meetings of the Board of Directors, Management Meeting, Boards of Directors of important subsidiaries, and other groups in an effort to maintain a timely understanding of information about the Group's management. Furthermore, we hold multiple meetings that are attended by the president and corporate officers with relevant areas of authority, including quarterly financial briefings and briefings on important developments such as mergers and acquisitions, and we carefully study how to best offer easy-to-understand explanations to shareholders and investors.

(3) Means by which we facilitate dialog apart from individual meetings include financial briefings conducted by the president for institutional investors following the end of the second quarter and the end of the fiscal year as well as small meetings that are attended by the president.

In addition, we also focus on pursuing a proactive program of IR activities such as individual visits by the corporate officer in charge of the Corporate Communication Department in order to build smooth relationships with shareholders and investors.

IR activities targeting individual investors include information session opportunities, such as during events hosted by brokerage firms and other companies, as well as an information session featuring the President of DyDo as a speaker which is held in Tokyo for shareholders and individual investors who are unable to attend the General Meeting of Shareholders at our head office in Osaka. Also, in addition to our official shareholder newsletter published twice yearly (Japanese only) as a tool for communicating with shareholders, we provide information session opportunities for each of our business domains, such as offering plant tours aimed at individual shareholders.

(4) We strive to reflect feedback from shareholders and investors in the Company's management by regularly reporting views and concerns that emerge from dialog with shareholders and investors to the Board of Directors and by providing more detailed information to the president as feedback.

(5) We strive to comply with fair disclosure practices by managing insider information during dialog with shareholders and investors in an appropriate manner that conforms with internal rules. Rules require that meetings with individual shareholders and investors be attended by more than one employee, and meeting minutes are shared with top management and division directors. In keeping with our Disclosure policy, we avoid individual meetings with shareholders and investors during quiet periods.
In addition, the Audit Department regularly monitors implementation of the Disclosure Policy and structures designed to ensure the timely disclose of information.

## 2. Capital structure

| | |
|---|---|
| Percentage of shares owned by foreigners | Less than 10% |

**[Major Shareholders]** Updated

| Shareholder name | Number of shares | Percentage of voting rights (%) |
|---|---|---|
| HighWood Co. Ltd. | 2,470,800 | 14.91 |
| Santomi | 2,011,600 | 12.14 |
| Taita Corporation | 738,100 | 4.45 |
| Tomihiro Takamatsu | 495,000 | 2.98 |
| Tomiya Takamatsu | 495,000 | 2.98 |
| Akira Takamatsu | 494,000 | 2.98 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 488,500 | 2.94 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 476,000 | 2.87 |
| Japan Trustee Services Bank, Ltd. (Trust Account 9) | 451,700 | 2.72 |
| Tamon Takamatsu | 445,800 | 2.69 |

| | |
|---|---|
| Controlling shareholders (except parent company) | -- |
| Parent company | None |

Supplemental explanation for this item

—

## 3. Corporate attributes

| | |
|---|---|
| Listed stock exchange and market segment | Tokyo, First Section |
| End of fiscal year | January |
| Industry | Foods |
| Number of employees (consolidated basis) at end of last business year | More than 1,000 |
| Consolidated sales during last business year | From 100.0 billion yen to less than 1 trillion yen |
| Number of consolidated subsidiaries at end of last business year | From 10 to less than 50 |

## 4. Approach to policies to protect minority shareholders in the event of transactions or other dealings with controlling shareholders

—

## 5. Other special circumstances with the potential to have a major impact on corporate governance Updated

—

## II. Status of management positions related to business decision-making, operations, and oversight and other corporate governance structures

### 1. Organizational structure, organizational administration, and related information

| | |
|---|---|
| Organizational structure | Company with *Kansayaku* board |

**[Board of Directors]**

| | |
|---|---|
| Number of directors as defined in the Articles of Incorporation | 7 |
| Term of directors as defined in the Articles of Incorporation | 1 year |
| Chairperson of the Board of Directors | President |
| Number of directors | 6 |
| Election of external directors | Yes |
| Number of external directors | 2 |
| Number of external directors who have been designated as independent officers | 2 |

Relationship with company (1)

| Name | Attribute | Relationship with company* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k |
| Shinji Mori | Attorney | | | | | | | | | | | |
| Masataka Inoue | From other company | | | | | | | | | | | |

* Options to describe relationships with company
* Place a hollow circle in a cell to indicate a current or recent relationship or a hollow triangle to indicate a past relationship.
* Place a solid circle in a cell to indicate a current or recent relationship held by a close relative or a solid triangle to indicate a past relationship held by a close relative.

a. Individual with responsibility over operations at a listed company or the subsidiary of a listed company
b. Individual with responsibility over operations or non-managing director at the parent company of a listed company
c. Individual with responsibility over operations at a fellow subsidiary of a listed company
d. Individual who counts a listed company as a major business partner, or individual with responsibility over operations at an entity that counts a listed company as a major business partner
e. Individual who is a major business partner of a listed company, or an individual with responsibility over operations at such a company
f. Individual who is a consultant, accounting specialist, or legal specialist who receives a large amount of money or other assets apart from officer compensation from a listed company
g. Individual who is a major shareholder of a listed company (if the major shareholder in question is a corporation, individual with responsibility over operations at the corporation in question)
h. Individual with responsibility over operations at a business partner of a listed company (other than [d], [e], or [f] above) (not including close relatives)
i. Individual with responsibility over operations at an entity at which an external director serves in a concurrent position (not including close relatives)
j. Individual with responsibility over operations at an entity that receives donations from a listed company (not including close relatives)
k. Other

Relationship with company (2) Updated

| Name | Independent officer | Supplementary explanation concerning compliance | Reason for election |
|---|---|---|---|
| Shinji Mori | ○ | Mr. Shinji Mori serves as Senior Partner of Chuo Sogo Law Office, P. C., Outside Corporate Auditor of OSAKA SODA CO., LTD., and Auditor of CREDIT GUARANTEE CORPORATION OF OSAKA. There are no special interests between the Company and OSAKA SODA CO., LTD. and CREDIT GUARANTEE CORPORATION OF OSAKA. Mr. Shinji Mori is currently working for Chuo Sogo Law Office, P. C., to which the DyDo Group commissions business. The DyDo Group receives legal advice as required from lawyers of this office other than Mr. Shinji Mori, and the annualized advisory fee that the DyDo Group pays to said law office is less than ¥10 million. | Mr. Mori has extensive experience and an advanced level of specialized knowledge as an attorney, and he has served the Company for 13 years as an Outside Corporate Auditor and for five years as an Outside Director. Based on that experience, he is appropriately carrying out his role in strengthening the oversight function of the Board of Directors by commenting on the Company-wide approach to risk management, and otherwise offering advice and suggestions as to the Company's management from an independent perspective. Based on this proven track record, he is considered to be qualified for service on the Board of Directors. |
| Masataka Inoue | ○ | Mr. Inoue and the Company share no special interests. | Mr. Inoue has a wealth of knowledge and overseas experience in the food industry. Based on his auditing experience in areas such as business development through overseas M&As and overseas subsidiaries, he is appropriately carrying out his role in strengthening the oversight function of the Board of Directors by commenting with respect to his viewpoint on risk and returns in the course of deliberations concerning such management issues of the Company as accelerated development of the Company's business overseas and expanding into new business domains, and otherwise offering advice and suggestions from an independent perspective. Based on this proven track record, he is considered to be qualified for service on the Board of Directors. |

| | |
|---|---|
| Voluntary committee equivalent to a nominating committee or compensation committee | None |

## [Auditors]

| | |
|---|---|
| Board of Auditors | Yes |
| Number of auditors as defined in the Articles of Incorporation | 4 |
| Number of auditors | 4 |

State of collaboration among auditors, accounting auditor, and internal auditing departments

- In addition to reviewing the accounting auditor's audit plans, corporate auditors assess accounting audit methodology and results and exchange views as necessary by attending the taking of inventory in the field by the accounting auditor and through reports on accounting audit results to the *Kansayaku* Board by the accounting auditor, which are offered at the end of the fiscal year and at the end of interim reporting periods. Full-time corporate auditors attend regular audit meetings, which are held by internal audit departments every three months to report information such as audit results and future audit plans to the president. This arrangement allows them to assess the status of internal audits and internal information related to those audits and to proffer views and make requests as necessary.
- In addition, internal audit departments work closely with the *Kansayaku* Board to point out problem areas and propose improvement measures by auditing the state of individual departments' compliance with laws, regulations, our Articles of Incorporation, and internal rules.

| | |
|---|---|
| Election of external auditors | Yes |
| Number of external auditors | 3 |
| Number of external auditors who have been designated as independent officers Updated | 3 |

Relationship with company (1) Updated

| Name | Attribute | Relationship with company* | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k | l | m |
| Sachie Kato | Attorney | | | | | | | | | | | | | |
| Shigeyuki Moriuchi | Certified Public Accountant | | | | | | | | | | | | | |
| Kiyoshi Watanabe | Tax Accountant | | | | | | | | | | | | | |

* Options to describe relationships with company
* Place a hollow circle in a cell to indicate a current or recent relationship or a hollow triangle to indicate a past relationship.
* Place a solid circle in a cell to indicate a current or recent relationship held by a close relative or a solid triangle to indicate a past relationship held by a close relative.

a. Individual with responsibility over operations at a listed company or the subsidiary of a listed company
b. Non-managing director or accounting councilor at a listed company or a subsidiary of a listed company
c. Individual with responsibility over operations or non-managing director at the parent company of a listed company
d. Auditor at the parent company of a listed company
e. Individual with responsibility over operations at a fellow subsidiary of a listed company
f. Individual who counts a listed company as a major business partner, or individual with responsibility over operations at an entity that counts a listed company as a major business partner
g. Individual who is a major business partner of a listed company, or an individual with responsibility over operations at such a company
h. Individual who is a consultant, accounting specialist, or legal specialist who receives a large amount of money or other assets apart from officer compensation from a listed company

i. Individual who is a major shareholder of a listed company (if the major shareholder in question is a corporation, individual with responsibility over operations at the corporation in question)
j. Individual with responsibility over operations at a business partner of a listed company (other than [f], [g, or [h] above) (not including close relatives)
k Individual with responsibility over operations at an entity at which an external director serves in a concurrent position (not including close relatives)
l. Individual with responsibility over operations at an entity that receives donations from a listed company (not including close relatives)
m Other

Relationship with company (2) Updated

| Name | Independent officer | Supplementary explanation concerning compliance | Reason for election |
|---|---|---|---|
| Sachie Kato | ○ | Sachie Kato serves as an outside director in Yamazen Corporation's Audit. The Company has no vested interest nor conflict of interest with either of these entities. Ms. Kato is employed with Chuo Sogo Law Office, P.C., which is contracted by the DyDo Group. She serves as a non-exclusive source of legal advice for the Company, and the DyDo Group pays less than 10 million yen in annual consulting fees to Chuo Sogo Law Office, P.C. | In light of her many years of experience as an attorney, her high level of discernment as a specialist in the law, her contribution to resolving a range of legal issues faced by multiple corporations, and her deep insight into corporate management, we consider Ms. Kato to be capable of overseeing the Company's auditing operations with a high level of independence and from a broad, overarching perspective. |
| Shigeyuki Moriuchi | ○ | Mr. Shigeyuki Moriuchi serves as Partner of Grant Thornton Taiyo LLC, Outside Director in KOSHIDAKA HOLDINGS Co., LTD.'s Audit and Supervisory Committee and Outside Corporate Auditor Audit & Supervisory Board Member of KATO SANGYO CO., LTD. There are no special interests between the Company and Grant Thornton Taiyo LLC and KOSHIDAKA HOLDINGS Co., LTD. The Company does have a trading relationship with KATO SANGYO CO., LTD.; however for the past three years, the amount of such trade was less than 2% of the consolidated net sales of either the Company or KATO SANGYO CO., LTD., and accordingly, KATO SANGYO CO., LTD. is not considered a major business partner of the Company. | Mr. Shigeyuki Moriuchi has gained longstanding auditing experience at a major accountants office and a major audit corporation, and he has business experience in a wide range of areas including legal auditing operations, international operations, IPO support and has extensive insight as an accounting specialist. The Company therefore wishes for such expertise to be reflected in the Company's auditing and has put him in the position of Outside Corporate Auditor. |
| Kiyoshi Watanabe | ○ | Mr. Watanabe and the Company share no special interests. | Mr. Kiyoshi Watanabe has gained longstanding practical experience as a certified tax accountant and a management consultant, and he has extensive insight as a tax accounting specialist. The Company therefore wishes for such expertise to be reflected in the Company's auditing and has put him in the position of Outside Corporate Auditor. |

**[Independent officers]**

| | |
|---|---|
| Number of independent officers Updated | 5 |

| Matters relating to Independent Officers |
|---|

—

## [Incentives]

| | |
|---|---|
| Status of implementation of measures related to incentives granted to directors | Introduction of a performance-based compensation program |

| Supplemental explanation for this item |
|---|

As part of our transition to a holding company structure effective January 21, 2017, we introduced a performance-based incentive program that awards Company shares in proportion to the extent to which performance targets are achieved in an effort to contribute to the Group's sustained growth and increased corporate value over the medium and long term.

| | |
|---|---|
| Individuals who are eligible to receive stock option grants | |

| Supplemental explanation for this item |
|---|

—

## [Director compensation]

| | |
|---|---|
| Status of disclosure of individual directors' compensation | We do not disclose individual directors' compensation. |

| Supplemental explanation for this item Updated |
|---|

Total compensation by officer type and compensation type; number of included officers

| | | |
|---|---|---|
| Directors (excluding outside directors) | 4 | 123 million yen<br>(basic compensation: 103 million yen; Japan employee stock ownership plan trust: 8 million yen; bonuses: 12 million yen) |
| Corporate auditors (excluding outside corporate auditors) | 1 | 14 million yen<br>(basic compensation: 14 million/bonuses: 0 million yen) |
| Outside directors | 5 | 22 million yen<br>(basic compensation: 22 million yen) |

| | |
|---|---|
| Policies on amount of compensation or the method used to calculate compensation | Yes |

| Information disclosed about policies on amount of compensation or the method used to calculate compensation |
|---|

- Compensation for directors is determined by a method that has been approved by the Board of Directors, subject to the scope of total compensation as approved by the General Meeting of Shareholders (not to exceed 280 million yen annually). Compensation for auditors is determined by the *Kansayaku* Board, subject to the scope of compensation as approved by the General Meeting of Shareholders (not to exceed 40 million yen annually).
Our program of retirement benefits for directors and auditors was abolished by the 39th Annual General Meeting of Shareholders, which convened on April 16, 2014. Directors and auditors who continued to serve

following the conclusion of that meeting are eligible to receive the retirement benefits they earned during their service before the program was abolished, with the specific amount, timing, method of presentation, and other terms to be determined by the Board of Directors (for directors) or *Kansayaku* Board (for auditors). In addition, the 41st Annual General Meeting of Shareholders, which convened on April 15, 2016, voted to introduce a new performance-based incentive program that awards shares of company stock to directors (except external directors and non-managing directors) starting during the business year that began January 21, 2017. The limits on compensation for directors described above do not apply to this program.

**[Support structures for external directors (external auditors)]**

・We have structures in place that allow staff members in the Corporate Strategy Department to assist outside directors, and staff members tasked with supporting auditors to assist outside corporate auditors. Enhancing the extent to which information is provided to outside directors and outside corporate auditors is an essential precondition for sound debate by the Board of Directors, and we're working to further enhance our capabilities in this regard based on the results of Board of Directors evaluations.

## 2. Information related to functions such as operations, audits and oversight, director and auditor nominations, and determination of compensation

### (overview of current corporate governance structures) Updated

The Board of Directors, which holds regular meetings once a month and extraordinary meetings as necessary, deliberates and makes decisions about important matters related to the Company's operations and oversees Group companies' operations. Two of its six seats are occupied by outside directors (as of April 16, 2019), whose function is to offer advice concerning the Company's management and to provide oversight from an independent perspective. Four corporate auditors, including three outside corporate auditors, one of whom is a woman, attend meetings of the Board of Directors.

In addition, the Management Meeting, whose membership consists of full-time directors and corporate officers, meets regularly to deliberate important matters and to support prompt decision-making by the president and Board of Directors.

The *Kansayaku* Board consists of one full-time corporate auditor and three outside corporate auditors (as of April 16, 2019). In addition to attending important company meetings, including Board of Directors meetings, its members solicit information about the status of operations from leaders of the Group's various organizational entities and oversee the manner in which directors carry out their obligations and responsibilities.

In keeping with the provisions of Article 427 Paragraph 1 of the Companies Act, our outside directors and outside corporate auditors have entered into contracts with the Company to limit their liability as stipulated by Article 423 Paragraph 1 of the Act. The limits imposed on their liability by these contracts conform to the amounts stipulated by applicable laws and regulations. Those limits are valid only in the event that the outside director or outside corporate auditor in question exhibits good will in the performance of his or her obligations and responsibilities and does not engage in serious negligence.

We have chosen KPMG Azsa LLG as our accounting auditor to provide advice and guidance concerning the legality and suitability of the Company's accounting and internal controls.

## 3. Reasons for Selecting the Current Corporate Governance System Updated

We consider transparency, fairness, and equitability in decision-making to be integral factors in ensuring the effectiveness of our corporate governance. To that end, we elected to adopt "company with auditors" status under Japanese corporate law, which essentially means that we appoint corporate auditors who have the authority to audit the directors' execution of their duties. Three of our four corporate auditors are independent of the company (three of which are independent outside corporate auditors), which underscores our dedication to maintaining robust, objective oversight. That intention is further illustrated by our appointment of two independent directors in April 2014 as a means of ensuring better transparency, greater accountability of company executives, and more stringent management supervision as of April 16, 2019, two of six, i.e. one third, of our directors are independent of the company.

In addition, we adopted an executive officer system in March 2012. By delegating the authority and responsibility for discrete parts of the organization to executive officers, not only are we able to keep abreast of changes in the market environment, but we can also maintain a clearer line to customer and stakeholder feedback, which can then be reflected in our business management.

## III. Status of implementation of measures related to shareholders and other interested parties

### 1. Status of initiatives to ensure the relevance and engagement of the General Meeting of Shareholders and facilitate the exercise of voting rights Updated

| | Supplemental explanation |
|---|---|
| Early mailing of notices of the convocation of the General Meeting of Shareholders | Notices of the convocation of the 44th General Meeting of Shareholders (which will convene on April 16, 2019) were mailed on March 26, 2019. In addition, notices of convocation are published on the Company's website as well as the websites of the Tokyo Stock Exchange and ICJ in advance of mailed notices. (March 19, 2019) |
| Scheduling of General Meeting of Shareholders sessions so as to avoid conflicts with other such meetings | Our fiscal year ends on January 20, so our scheduling of the General Meeting of Shareholders does not conflict with similar meetings at other companies. |
| Exercise of voting rights via electromagnetic methods | We introduced the ability for shareholders to exercise voting rights via the Internet, making it possible to vote using a computer, mobile phone, or smartphone. |
| Participation in electronic voting platforms and other initiatives to improve institutional investors' ability to exercise their voting rights | We began participating in the Electronic Voting Platform operated by ICJ, Inc., and investors can use that platform to cast their votes. |
| Translation of notices of convocation (summaries) into English | We began translating part of our notices of convocation (including the text of measures being considered by the body) into English, and we publish that translation on the Company's website as well as the websites of the Tokyo Stock Exchange and ICJ. |

### 2. Status of IR activities Updated

| | Supplemental explanation | Explanation by president |
|---|---|---|
| Establishment and publication of a disclosure policy | We have established a Disclosure policy, and the policy is published on the Company's website. | |
| Regular briefings for personal investors | We offer briefings for individual investors on an ongoing basis throughout Japan. During FY2018, we held 19 such briefings. Additionally, an information session featuring the President of DyDo as a speaker was held in Tokyo in October 2018 for shareholders who were unable to attend the General Meeting of Shareholders in Osaka. | Yes |
| Regular briefings for analysists and institutional investors | Our president holds briefings and small meetings for analysts and institutional investors at the end of the fiscal year and at the end of the second quarter.<br>We also provide video, transcripts of briefings, and a summary of the Company's responses to investor questions on the Company's website soon after the briefings are held. | Yes |

| | Supplemental explanation | Explanation by president |
|---|---|---|
| Publication of IR materials on the website | We make a range of information for investors available on the Company's website, including financial bulletins, securities reports, and shareholder notices (in Japanese only) as well as financial results materials, monthly sales reports, notices of convocation of the General Meeting of Shareholders, notices of measures adopted by the General Meeting of Shareholders, integrated reports, and IR news releases (in both Japanese and English).<br>English translations of financial results materials, monthly sales reports, and IR news releases are made available at the same time as the Japanese originals.<br>In addition, our website includes pages for individual investors as well as English-language pages to facilitate a deeper understanding of the Company. | |
| Establishment of an IR department (coordinator) | We have established an IR Group as part of the Corporate Communication Department. | |
| Other | We publish DyDo official shareholder newsletter twice yearly (Japanese only) as a tool for communicating with shareholders.<br>In June 2018, we held an information session for individual shareholders about our domestic beverage business. | |

### 3. Status of initiatives related to respect for the viewpoints of stakeholders Updated

| | Supplemental explanation |
|---|---|
| Internal and other rules concerning respect for the viewpoints of stakeholders | Our Group Corporate Philosophy requires the Group to strive "to achieve happiness and prosperity together with people and society as a whole." We have established a CSR Policy to give shape to that philosophy by setting forth our basic stance toward stakeholders.<br><br><CSR Policy><br>Based on our group philosophy of "striving to achieve happiness and prosperity together with people and society as a whole," we are incorporating the voices of our stakeholders into our management and contributing to the realization of an active and enriched society.<br><br>For our customers<br>"Always offering high quality with added surprise!"<br>Delivering joy and wonder, as well as safety and reliability.<br>For our employees<br>"Offering a dynamic workplace and the fulfilling joy of achievement!"<br>Ensuring effective communication within the company and developing human resources ready to face challenges.<br>For our business partners<br>"Taking on the challenge of the next stage of growth together!"<br>Sharing our management vision and strategies while deepening the bonds of trust with our business partners.<br>For society<br>"Emphasizing the importance of the bonds between people and society!"<br>Contributing to the vitality of local society through our business operations and community activities.<br>For our shareholders<br>"For continued growth in corporate value!"<br>Realizing stable returns through a sound governance system. |

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| Implementation of environmental protection activities, CSR activities, etc. | Based on the idea of achieving happiness and prosperity together, the Group recognizes the role of nature in allowing us to produce the beverages and food products that we deliver to people throughout society. We take our responsibility to pass on a beautiful planet and a rich, healthy society intact to the next generation seriously, and we have made an approach to management that harmonizes our business operations with the natural environment a core part of our environmental policy.<br><br>We consider it an important responsibility to pass on to the next generation a clean earth and a society full of vitality, so we strive to carry out operations with full consideration for the environment.<br><br>In addition, we have established the Community Support Fund with the goal of implementing an ongoing program of community service in order to help realize rich and fulfilling local communities through the Group's development. We adopted an approach that appropriates surplus earnings in this manner so that the fund could go beyond temporary assistance to offer support over the medium and long term in a way that would not be affected by our business performance in any given fiscal year.<br><br>Furthermore, we support Japanese "MATSURI" Festivals as a way to forge connections with local residents and reinvigorate regional society through festivals. By joining hands with local residents and local governments, we will continue to help build vibrant communities. We provide information about specific CSR initiatives on behalf of all stakeholders, including our customers, employees, business partners, shareholders, and society as a whole to the general public via our website and other means. |

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| Measures such as policies related to information disclosure to stakeholders | We have adopted the following Disclosure policies:<br><br>1. IR Action Policy and Goals<br>DyDo Group Holdings strives to achieve happiness and prosperity together with people and society as a whole. Under this group philosophy, we actively undertake two-way communication with all our stakeholders, including our shareholders and investors. This increases understanding of our group and incorporates the voices of our stakeholders as feedback to our management, enabling us to gain a correct appreciation of our corporate value as we aim to be a trustworthy company.<br><br>2. Promoting Constructive Dialog<br>DyDo Group Holdings strives to achieve sustained growth and increased corporate value over the medium and long term by promoting constructive dialog with stakeholders. By giving overall responsibility for dialog with stakeholders to the president and having the general manager of the Corporate Communications Department (Information Management Officer) pursue dialog with specific purposes, the Company strives to build trust with structures that bring stakeholder voices to bear on its management.<br><br>3. Information Disclosure Policy<br>DyDo Group Holdings aims to provide information rapidly, on the basis of transparency, fairness, and continuity, to all our stakeholders, including our shareholders and investors. This information includes financial information about topics such as the Group's financial condition and management results as well as non-financial information about topics such as management strategies and issues, risks, and governance. In addition to information disclosure in accordance with the Companies Act, the Financial Instruments and Exchange Act and other laws, plus the Timely Disclosure Rules of the Tokyo Stock Exchange (TSE), we also strive to disclose information proactively and candidly as far as possible as we believe this will be effective for generating a deeper understanding of the DyDo Group.<br>In addition, we treat information that is subject to insider trading regulations and finalized information about the Group's financial performance prior to its release as important information, which we do not disclose on a selective basis to transaction parties*.<br>* As defined by Article 27 Paragraph 36 Item 1 of the Financial Instruments and Exchange Act, including financial instruments business operators as well as other entities that are likely to be involved in certain transactions, including the purchase and sale of securities.<br><br>4. Important Information and Means of Information Disclosure<br>DyDo Group Holdings takes into consideration the precise candid communication of information by appropriate methods in accordance with the importance and urgency of such, for vital information under the Timely Disclosure Rules of the TSE plus also information not required under those rules but which could have a marked effect on the judgment of investors.<br>For vital information DyDo Group Holdings believes should be disclosed, we first explain it to the TSE, and register it publicly under the TSE Timely Disclosure network (TDnet). Immediately after registering it on TDnet we also provide the same information to news organizations, and post the same documentation on our website without delay.<br>In the event Information Management Officer determines that an officer of the Company or any employee whose responsibilities include communicating information to transaction parties has unintentionally divulged important information, Information Management Officer will immediately report the incident to the president and make public the information in question in accordance with a predetermined procedure. If it is determined that it would not be appropriate to disclose the divulged information, we will take action as appropriate, for example by foregoing its disclosure on condition that the party who received the information agree to maintain its confidentiality and not to buy or sell any shares of the Company's stock until such time as the information in question can be disclosed. |

5. Improving the Fairness of Information Access

DyDo Group Holdings works actively to disclose information through its website in order to ensure stakeholders enjoy fair access to information.

In addition to disclosing important information on the Company's website for at least one year, we strive to disclose information that we determine should be shared with private investors and information that we believe would be useful in making investment decisions in an easy-to-understand manner, for example by summarizing the information and presenting it during question-and-answer sessions at financial briefings.

6. Matters Concerning Performance Forecasts and Future Predictions

The plans, future projections and strategies for the DyDo Group stated in the materials we disclose, with the exception of past or current facts, are projections of our future performance, and are based on the judgment and postulations of our management team based on the information available at the present time. Accordingly, the actual performance may differ greatly from these due to unforeseen factors, the economic situation and other risks.

7. Quiet Period

To protect against leakage of important information such as finalized information about the Company's financial performance prior to its release and to ensure fairness, we have set a "Quiet Period" for the thirty days prior to the financial results announcement (including for quarterly results; same below), where we refrain from answering or commenting on any queries relating to the financial results. During the quiet period we also refrain from holding press conferences or having individual meetings with analysts or institutional investors. However, if an important fact that requires disclosure comes up during this quiet period, we will disclose such information as required based upon the Timely Disclosure Rules and suchlike.

8. Development and Enhancement of Internal Structures

DyDo Group Holdings will operate its Disclosure Policy in a proper manner and will develop and enhance internal structures that facilitate cooperation among involved departments in order to increase the level of understanding that characterizes dialog with stakeholders. DyDo Group Holdings also has internal regulations regarding rules on insider trading and ensures their thorough operation, putting an emphasis on the education of its officers and employees. In addition, the Audit Department regularly monitors implementation of the Disclosure Policy and structures designed to ensure the timely disclose of information.

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| Other | [Basic Approach to HR]<br><br>1. Recruit diverse personnel who are prepared to boldly take on challenges and are capable of taking responsibility for innovation.<br>2. Train personnel to increase knowledge and improve skills in order to create and implement a vision and become capable of bringing about innovation.<br>3. Build an organizational culture and personnel system that promote an ongoing handling of challenges.<br><br>[Initiatives to respect diversity]<br>Reflecting our respect for diversity of values that transcend gender or gender identity/expression, sexual orientation, age, nationality, disability, and other attributes and our belief that ensuring individual employees can make the most of their abilities allows the company to grow in a sustained manner, we are pursuing the following initiatives:<br><br><Promoting hiring of female employees><br>We work actively to hire and train female employees as one way to secure a diverse workforce. We take a systematic approach to hiring, and 46% of newly hired employees of DyDo DRINCO, Inc., which plays the leading role in the domestic beverage business as our core business, during FY2018 were women.<br><br><Promoting hiring of disabled employees><br>As of January 20, 2019, disabled employees made up 2.50% of our workforce of DyDo DRINCO, Inc., which plays the leading role in the domestic beverage business as our core business. We will continue to work to ensure that each and every employee can build on his or her strengths and abilities while growing together with the Company.<br><br><Actively hiring human resources with experience living abroad><br>We actively hire Japanese and international students who have studied abroad and individuals with experience working overseas in order to promote globalization. As part of those efforts, we participate in career forums held overseas, and we've introduced a fall hiring program for graduates of overseas universities. |

# IV. Internal control systems, etc.

## 1. Fundamental policies on internal control systems and status of their implementation Updated

We have implemented the following internal control system in accordance with the Companies Act and the Companies Act Enforcement Ordinance.

1. Frameworks to ensure that directors and employees of the corporate group comprised of the Company and the subsidiaries of the Company (the "Group") perform their duties in conformity with laws and regulations and the articles of incorporation

(1) The Group shares as a management philosophy its Group Philosophy and Group Vision, and toward their realization adheres to ethical corporate behavior and principles, as exemplified in the DyDo Group Code of Conduct.

(2) The Group establishes and maintains necessary frameworks for the maintenance and monitoring of internal control consistent with the scale and characteristics of the Group.

(3) The Group establishes the DyDo Compliance Hotline which guarantees that Group employees and corporate officers as well as outsiders will be able to make reports on compliance matters directly and without exposure to retaliation.

(4) The internal auditing department of the Company, in coordination with the *Kansayaku* Board, identifies non-conformities and proposes improvement measures based on audits of each department's status of compliance with laws and regulations, the articles of incorporation, and internal regulations. Additionally, the internal auditing department of the Company performs internal audits in accordance with necessity and promotes the expansion of frameworks for compliance with laws and regulations at subsidiaries.

(5) The Group maintains no transactional relationships with anti-social elements that threaten public order and safety. The Group, in coordination with the relevant institutions, defends itself vigorously across the entire organization to prevent damages should fraudulent claims be brought against the Group.

2. Frameworks concerning the preservation and management of reports on the performance of directors' duties

Matters concerning reports on the performance of directors' duties are appropriately preserved and managed in accordance with internal regulations and shall be accessible for the perusal by directors and corporate auditors when necessary.

3. Regulations and other frameworks for managing the risk of damages to the Group

(1) The Company practices risk assessment and analysis in accordance with the fundamental regulations for risk management, maintains and regularly convenes a risk management committee chaired by the representative director serving as president, and engages in proactive risk management. Moreover, the Company works in coordination with subsidiaries to unify and share information concerning the Group's risk management and crisis management.

(2) For the case of unforeseeable events with potential to materially affect the business of the Company, the Company establishes and maintains frameworks for the convocation of a crisis management committee chaired by the representative director serving as president, and steps to be taken to minimize damages and other adverse effects.

4. Frameworks to ensure that directors, etc., of the Group perform their duties in an efficient manner

All companies of the Group aim through the following measures consistent with the scale and characteristics of each company to achieve the efficient performance of the duties of directors.

(1) Division of duties and clarification of authorities

(2) Deliberations and reporting on important management matters at board of directors' meetings convened at regular intervals or as the need arises

(3) Establishment of a management committee comprised of board directors

(4) Preparation, progress management, and improvement measure implementation for consolidated mid-term management plans and fiscal-year budgets

5. Matters concerning reports to the Company regarding the performance of the duties of directors, etc., of subsidiaries

The Company, in accordance with internal regulations, establishes and maintains a department charged with the coordination of and control over its subsidiaries and the reporting to subsidiaries on the status of execution of operations.

6. Matters concerning employees whose deployment is requested by corporate auditors to support their duties, matters concerning the independence of such employees from directors, and matters for ensuring the effectiveness of instructions issued by corporate auditors to such employees

(1) Upon request of the corporate auditors to have employees deployed to support their duties, the Company deploys employees equipped with the capabilities and knowledge necessary to support corporate auditors and confers upon the corporate auditors the right of command over such employees.

(2) Corporate auditors shall be able to obtain from the director responsible for human resources in advance reports on personnel transfers and personnel assessments with respect to the employees whose support the corporate auditors request, and shall be able, based on reasons to be stated, to request of the director responsible for human resources changes to such personnel transfers.

(3) The director responsible for human resources shall for disciplinary measures, etc., against subject employees obtain the advance approval of the corporate auditors.

7. Frameworks for reports to corporate auditors and frameworks to prevent retaliation against persons who have reported to corporate auditors

(1) Through attendance at the meetings of the board of directors and meetings of other important deliberative bodies such as the management committee, etc., of the Company, the standing corporate auditor shall receive timely reports on important information concerning the Group. Moreover, the risk management department and the legal affairs department shall at regular intervals report on their respective duties to the corporate auditors.

(2) In addition to item (1) above, Group directors, corporate auditors, and employees, etc., shall promptly report to the corporate auditors any matters that affect or threaten to affect the Group in a significant way.

(3) The internal auditing department shares the results of internal audits of the Group with the *Kansayaku* Board.

(4) Persons who have reported a compliance issue to corporate auditors are protected against retaliation on grounds of such reporting. If a person who has reported a compliance issue is found to have been retaliated against, appropriate steps are promptly taken to remove the retaliatory measures.

8. Procedures for advances or reimbursement of costs that arise in connection with the performance of the duties of corporate auditors and matters concerning policies for the treatment of other costs and obligations that arise from the performance of such duties

Advances or reimbursements, etc., claimed by corporate auditors related to expenses that arise in the execution of their duties are settled promptly unless found unnecessary for the execution of the duties of the subject corporate auditor.

9. Other frameworks to ensure the effective execution of audits of corporate auditors

To ensure appropriate communication and effective audit execution, corporate auditors maintain close contact with the internal auditing department, the accounting auditor, and the corporate auditors of subsidiaries, and meet at regular intervals for exchanges of opinion with the representative director serving as president.

10. Frameworks to ensure the reliability of financial reporting

The Group maintains, operates, and assesses continuously its frameworks for the effective and appropriate internal control concerning financial reporting in accordance with the Financial Instruments and Exchange Act and other laws and regulations and works to ensure the reliability and appropriateness of financial reporting.

## 2. Basic approach to the elimination of antisocial forces and status of its implementation

Updated

Our basic approach to implementing internal control systems includes the following commitment: “We will avoid entering into any relationship, business-related or otherwise, with antisocial forces that threaten order or safety in civil society. In the event that an individual or group associated with antisocial forces makes illegal demands of the Company, we will work with the authorities to prevent any damage from those demands while marshalling all of the organization’s resources to face them with a resolute attitude.” The DyDo Group Code of Conduct, which sets forth a specific code of conduct concerning compliance, also includes a similarly explicit statement, and we strive continually to raise awareness of our position with regard to antisocial forces.

# V. Other

## 1. Introduction of takeover defense measures

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| Introduction of takeover defense measures | Yes |

Supplemental explanation for this item

We adopted a "Basic Policy Regarding Who Should Oversee Decisions Regarding the Financial and Business Policies of the Company" at a Board of Directors meeting held on January 15, 2008. That meeting approved a resolution entitled "Measures to Respond to Large-Scale Acquisition of Our Company's Stock (Takeover Defense Measures)," which was then approved by the General Meeting of Shareholders held on April 16, 2008.

We have continued to study the nature of those measures following their introduction based on changes in social and economic conditions, various trends and discussions concerning takeover defense measures, core principles of Japan's Corporate Governance Code, and other factors as part of our efforts to maintain and increase corporate value and the common benefit of shareholders. As a result, we concluded that it would be essential to continue to address the risk of large-scale purchases of company shares as part of our efforts to achieve sustained growth and to increase corporate value over the medium and long term while pursuing mutually beneficial relationships with all stakeholders, including customers, employees, business partners, local communities, and shareholders, in keeping with our Basic Approach to Corporate Governance. Reflecting this conclusion, the Board of Directors, including our two external directors, unanimously approved the continuation of this plan ("the Plan") on March 6, 2017, and it was subsequently approved by the 43rd General Meeting of Shareholders.

[Reasons for Continuing with the Plan]

In terms of whether we should accept a bid by a large-scale purchaser for large-scale acquisition of our Company's stock, bearing in mind that the final decision should be left to the shareholders, with regard to acquisition attempts that would seek to contribute to the management of the Company, the Company shall not categorically reject all such acquisition attempts if they would greatly increase the corporate value of the Company.

The purpose of the large-scale acquisition rules laid out in the Plan regarding the large-scale acquisition of our Company's stock is to provide to you, our shareholders, the information that you need to determine whether or not a large-scale acquisition bid should be accepted, and to advise you of the opinions of the members of the Board of Directors who are presently engaged in the management of the Company, in order to ensure that you have the opportunity to learn about any alternate plans. Currently, although there are some measures in place to control the abusive acquisition of stocks under the Financial Instruments and Exchange Act, it is conceivable that there are cases in which the law is not always effective. For example, when it is not possible to legally secure the time to submit and consider information prior to the commencement of a takeover bid or to restrict buying-up in the market. Therefore, we believe that establishing large-scale acquisition rules will form the basis on which you, our shareholders and investors, can make appropriate investment decisions, and that securing adequate time can be an effective means of facilitating constructive dialogue between shareholders and prospective large-scale purchasers who have the potential to improve corporate value.

The economic environment surrounding our domestic beverage business, which is our Group's core business, remains harsh, and in order to improve mid-to-long term corporate value, we are in a situation that requires us to constantly modify our earnings structure to be able to more flexibly cope with the changing times.

We believe that it is necessary, at times, from a mid-to-long term perspective, to act rapidly and decisively to implement bold measures as a company, in order to be able to promptly cope with the changes that are expected to occur in the industry at an ever-increasing pace, and achieve continuous growth and increased corporate value in the mid-to-long term, while ensuring the harmonious coexistence and mutual prosperity of all stakeholders, namely our customers, our employees, our business partners, local communities and our shareholders. In cases where stock equivalent to more than 20% of the total number of issued shares of the Company has been acquired, however, it is feared that this will have a major influence on the management of the Company and may lead to a situation in which the aforementioned policies cannot be executed. Furthermore, when we consider factors such as the quorum and the ratio of voting rights, there is clearly the potential for such a situation to have a

major impact on special resolutions at the Annual General Meeting of Shareholders.

Although approximately 33% of issued shares are held by the President and Representative Director of the Company, Tomiya Takamatsu, Chairman/Director Tomihiro Takamatsu, and the asset management company under their direct control, many of our shareholders are private investors and are from a wide range of backgrounds. With the exception of the President and Chairman/Director of the Company, none of the founder-related shareholders are presently involved in the management of the company, and as voting rights are executed at the discretion of each individual, there is no difference in terms of position between them and general shareholders. With regard to shares of the Company that are held by founder-related shareholders, it is suspected that they will become further divided through assignment, inheritance and other disposition at the discretion of the individuals involved and according to the circumstances that surround them. In light of the above, there is always the possibility that a large-scale acquisition may occur that will have a negative impact on the corporate value of the Group and be contrary to the best interests of shareholders. The following are but two examples.

(1) The domestic beverage business is our core business and we have one of the industry's most extensive networks of vending machines, located throughout Japan, which makes us a prominent player in the industry. Recently, there have been cases where the value of vending machine businesses has been highly appraised for their merger and acquisition potential in the beverage industry, and there is the possibility that a large-scale purchaser may focus on the large number of vending machines that we hold and we may face the threat of a hostile takeover that does not have an increase in the mid-to-long term corporate value of the Company in mind.

(2) On the other hand, our Group's proprietary vending machine business model is built on a mutual relationship of trust with and among stakeholders. This is particularly evident in the operation of our network of vending machines - one of the most extensive in the industry - which is run together and directly by the employees of our Group and the employees of "Kyoeikai" (the vending machine operator that deals with our products), making it heavily reliant on personnel. Depending on the policy of a large-scale purchaser, a change in management policy may cause both groups of employees to feel insecure or cautious, which may lead to resistance or loss of support, resulting in a drop in the quality of the vending machine business, with the resulting huge loss of popular (high sales throughput) vending machine sites, causing reduced cash flow capacity as well as a decline in the mid-to-long term corporate value of the Company.

In light of the above, it was determined that reapproving the large-scale acquisition rules is essential in order to maintain continuous growth and enhance mid-to-long term corporate value, and to be able to respond quickly to changes that are expected to occur in the industry at an ever-increasing pace, and that it is the duty of the Board of Directors to be constantly ready for any unexpected events by continuing with the Plan based on the essence of our Group's proprietary vending machine business model.

More information about the Plan is available in documentation disclosed on the Company's website (https://www.dydo-ghd.co.jp/en/).

## 2. Other matters related to corporate governance structures, etc.

Overview of structures designed to ensure timely disclosure of information

Since our listing on the First Section of the Tokyo Stock Exchange in August 2001, we have endeavored to make employees aware of the importance of disclosing information about the Company and its operations in a timely manner, to promote the centralization and sharing of information, and to make such information available in a timely and accurate manner.

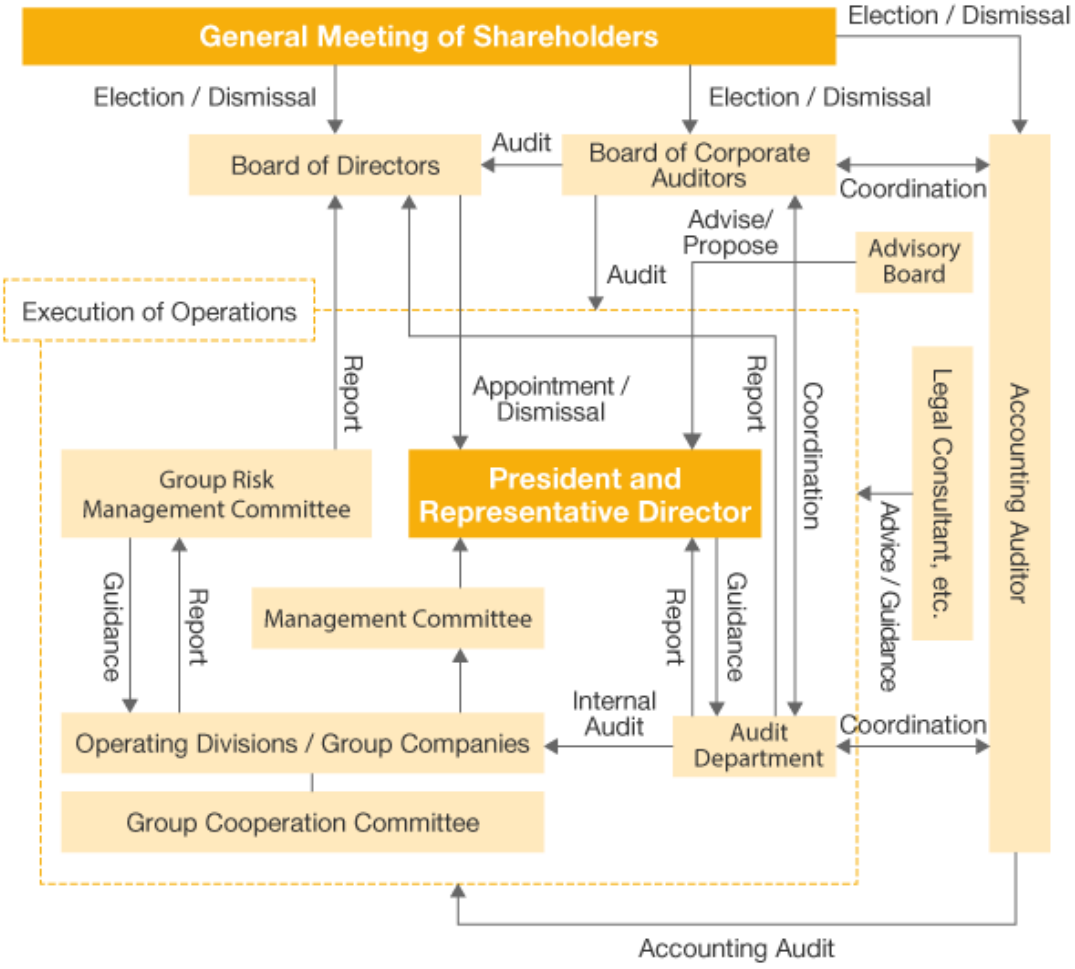
When the Company's departments or Group companies become aware of material information, they immediately report that information to the Corporate Communication Department, which has responsibility for information disclosure. The general manager of the department, who is broadly responsible for the management of information at the Company, then determines whether that information should be disclosed in a timely manner and, if so, obtains approval from the president and makes it available to stakeholders without delay once it has been reported to, and discussed by, the Board of Directors and Management Meeting. Urgent information that requires immediate disclosure can be made available to stakeholders immediately, without prior reporting to, or discussion by, the Board of Directors and Management Meeting, at the president's discretion.

In addition to offering his views on information disclosure to the Board of Directors and Management

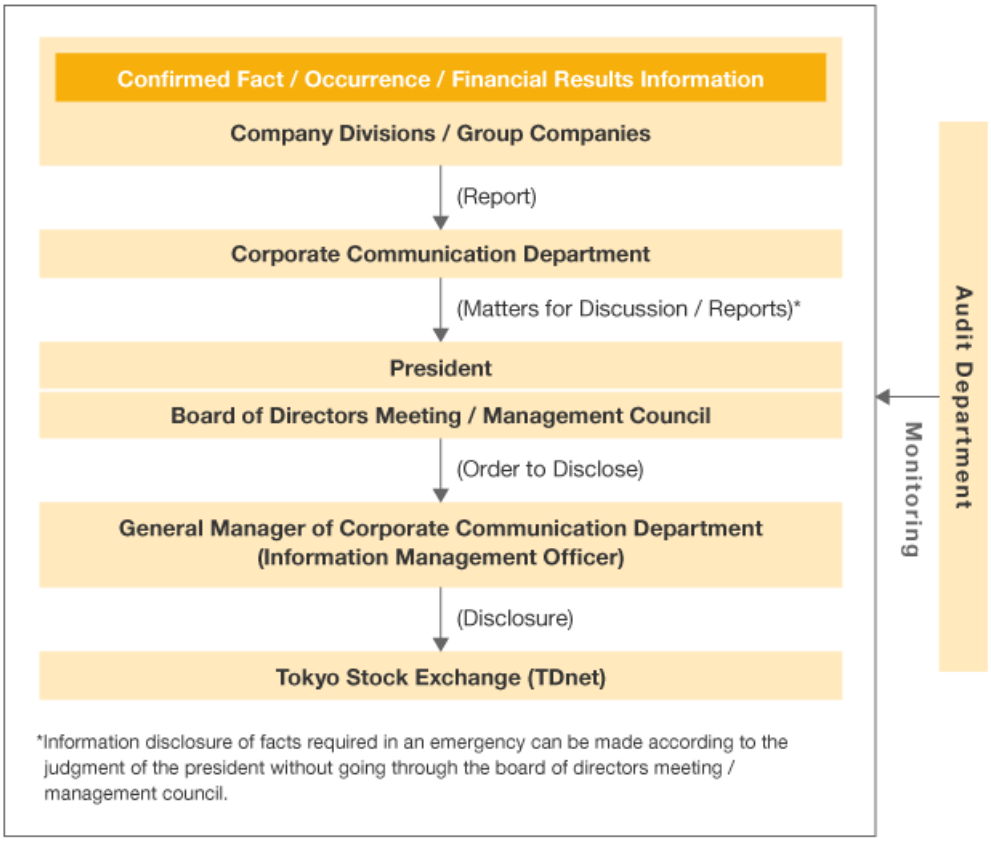
Meeting, the general manager of the Corporate Communication Department reports on information that should be disclosed, the process by which such disclosure is accomplished, and its results. He also attends important meetings at Group companies, for example subsidiaries' Boards of Directors, and works to maintain an understanding of material information. In addition to orchestrating the actual release of information, the Corporate Communication Department's IR Group gathers information from inside and outside the company and reports that information to the general manager of the Corporate Communication Department, along with their associated views.

Full-time auditors maintain an understanding of material information by attending meetings of the Board of Directors and Management Meeting as well as other important meetings and review structures related to information gathering and disclosure.

## Overview of corporate governance structures



# Outline of the Timely Disclosure




*Information disclosure of facts required in an emergency can be made according to the judgment of the president without going through the board of directors meeting / management council.